K-Bridge (6156 TT)

TFT-LCD Component

HOLD

Company Update

Mild Recovery Only

- **First-tier backlight unit maker.** K-Bridge is one of the major backlight unit (BLU) makers in Taiwan. Since BLU is a high labor demand industry, most companies have their production based in China. K-Bridge has plants in Wujing, Jiangsu Province and Huangjiang, Gungdon Province. To further reduce the costs, the company focuses on R&D in the upstream component sector. For example, its new technology, *V-Cut* light guide plate, can lower the component cost for diffuser and prism sheet.

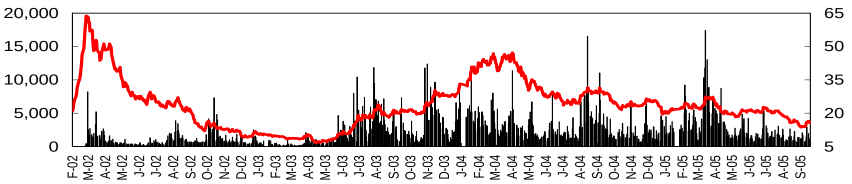
- **Improving industry structure.** The BLU industry dynamic in Taiwan is better than the panel's, because some second-tier companies have already been eliminated through severe competition. In addition, the supply chain for upstream BLU component has also been established in Taiwan.

- **2H05 outlook: mild recovery.** With its shipment estimated to reach 1.0mn units in September, we believe K-Bridge will swing to profit in 3Q05 with an EPS of NT$0.38. As its Wujiang plant entering mass production, its 4Q05 EPS could further go up to NT$0.71. The ending 2005 EPS is estimated to be NT$-0.18. In our forecast, the 2006 sales will close at NT$8.2bn with an EPS of NT$1.5.

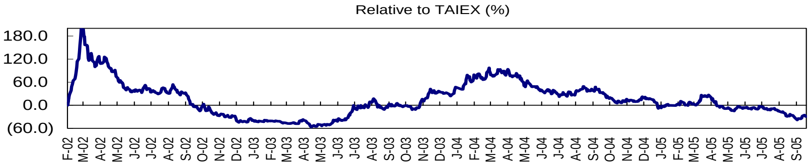
- **Risk concern.** We are concern with K-Bridge's highly centered customer profile, making it more vulnerable than its peers. Its major customer, CPT, who accounts for 70% of K-Bridge's sales, was reportedly to extend its payment days to its vendors. K-Bridge's account receivable collection period is already 150 days, trailing after its peers.

- **We recommend to HOLD.** K-Bridge historically has been traded between 0.73-3.20x PBR. We are positive with the overall BLU industry outlook, but the extension of payment days from CPT' and other operation efficiency issues do worry us. In addition, since the TFT-LCD industry cycle is approaching its peak, we are conservative towards the company's outlook. Therefore, based on 9.5x PER of 2006E EPS of NT$1.5, we conclude a target price of NT$14.25, suggesting a 9.24% downside potential, and recommend to HOLD.

Average daily volume ('000, LHS) and share price (NT$, RHS)



Relative to TAIEX (%)



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Recommendation

HOLD

Date:	October 7, 2005
Share Price (NT$):	15.7
Price Target (NT$):	14.25
Percent Change:	-9.24%
52-wk range (NT$):	13.65-27.91
TWSE:	6081.84

Company Data

Capital Size (NT$):	1.44bn
Market Cap (NT$):	2.27bn
Market Cap (US$):	68.22mn
Outstanding Shrs:	144mn
PER ('05E):	N/M
PBR ('05E)	0.84x
Foreign Ownership:	1.03%
Major Shareholder:	Chairman Tsai (2.98%)

Performance	1-m	3-m	6-m
Absolute (%)	(4.73)	(22.66)	(40.21)
Relative to TAIEX	(3.43)	(19.90)	(41.22)

Key Changes	Current	Prev.
Recommendation	HOLD	N/A
Price Target (NT$)	14.5	N/A
Revenue (NT$bn)	7.32	N/A
Gross Margin (%)	7.32	N/A
Oper. Margin (%)	4.78	N/A
EPS05' (NT$)	-0.18	N/A

Price Catalysts (+,-)

(+) Improving industry structure

(-) Worries on A/R collection issues

(-) Industry recovery is mild only

Related Research

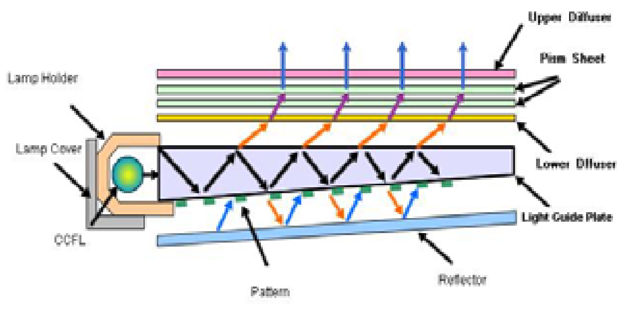
N/A

Investment Keynotes

Company background

Currently the fourth largest backlight unit (BLU) maker in Taiwan, K-Bridge supplies BLU to various panel makers, such as AUO (2409 TT, NT$41.90, HOLD), CPT (2475 TT, NT$9.30, SELL), QDI (3012 TT, NT$11.40, HOLD) and Sharp. Since BLU is a high labor demand industry, most companies move their production base to China. K-Bridge now has BLU module plant in Wujing, Jiangsu Province, and Huangjiang, Gungdong Province. In order to further reduce the cost, the company also focuses on R&D in the upstream component. For example, it is developing a new technology called *V-Cut* light guide plate, which can lower the component cost for diffuser and prism sheet. BLU is the light source of a panel. It accounts for 20.0% of the material costs of a 17-inch monitor panel, and its weight increases significantly to roughly 40% in a 32-inch TV panel.

Figure 1: BLU Structure



Source: Radiant; MasterLink Securities

Industry overview

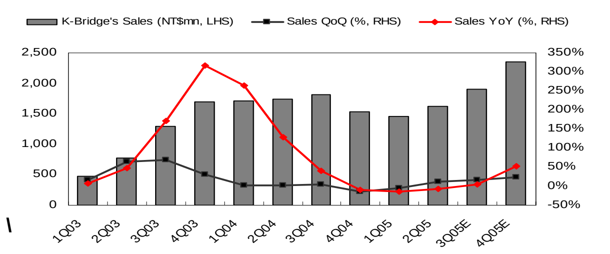
The BLU industry dynamic in Taiwan is better than the panel's, because some second-tier companies have already been eliminated through severe competition. Currently, the total shipment of the Taiwanese BLU makers has accounted for 50% of the global market share. The total BLU shipment from the four major surviving BLU makers, Radiant (6176 TT, NT$78.50, HOLD), Coretronic (5371 TT, NT$38.90, HOLD), Forhouse (6120 TT, NT$53.30, HOLD), and K-Bridge, jumped 80% since December 2004. The total shipment from the five major panel makers only went up 45% during the same time.

Taiwanese companies have aggressively entered the market of upstream BLU component, forming a stable supply chain. For example, EFUN Tech (unlisted) begins to produce prism sheet. Wah Hong Industrial Corp (8240 TT, NT$152.00, BUY) and Exploit Tech (unlisted) enter the diffuser and reflector market. Meanwhile, Wellypower (unlisted), Audix (2459 TT, NT$48.20, BUY), and Delta (2308 TT, NT$58.40, HOLD) will produce cold cathode fluorescent lamp (CCFL). The localization of upstream material will help to cut the costs of BLU makers. Since material costs account for more than 65% of the cost of a BLU, we believe this will in general improve the industry dynamic.

2H05 outlook: mild recovery

K-Bridge's shipment is estimated to reach 1.0mn units in September 2005, up from the 700K units in July 2005. Given the gross margin of BLU makers currently sits at around 10%, we estimate the break-even point for a BLU maker is between 700-800K per month. Therefore, K-Bridge is likely to swing to profit in 3Q05, ending its three consecutive losses since 4Q04. In our forecast, 3Q05 sales will close at NT$2.0bn, with an EPS of NT$0.38. With its Wujiang plant entering mass production in 3Q05, we expect its 4Q05 sales will grow further to NT$2.3bn, with an EPS of NT$0.71 and an ending 2005 EPS of NT$-0.18. In 2006, we forecast the sales will reach NT$8.2bn, with an EPS of NT$1.5.

Figure 2: K-Bridge Steel Quarterly Sales



Source: TEJ; MasterLink Securities

Risk Factor

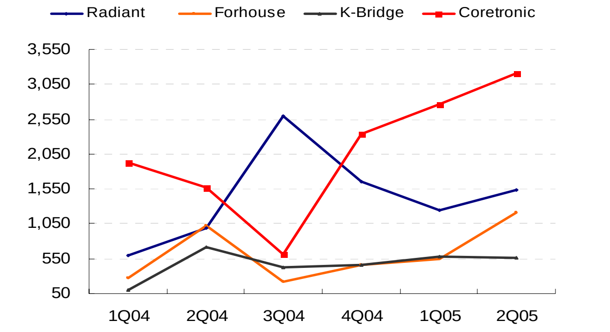
We are concern with K-Bridge's highly centered customer profile, making it more vulnerable than its peers. Its major customer, CPT, who accounts for 70% of K-Bridge's sales, was reportedly extending its payment days to its vendors. Moreover, K-Bridge's account receivable collection period is already 150 days, trailing after Coretronic's 49 days, Forhouse' 84 days, and Radiant's 109 days.

Figure 3: The Comparison of BLU Makers Operation Efficiency in 2Q05 (Unit: days)

BLU Maker	Avg. A/R Collection	Avg. Inventory Turnover	Avg. A/P Collection	Cash Conversion
K-Bridge	150	41	86	105
Radiant	109	30	51	87
Coretronic	49	42	60	32
Forhouse	84	34	58	59

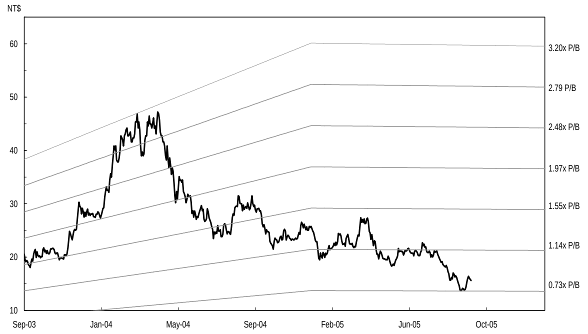
Source: TEJ; MasterLink Securities

Figure 4: BLU's Cash Position Comparison (unit: NT$mn)



Source: TEJ; MasterLink Securities

Figure 5: P/B Band



Source: TEJ; MasterLink Securities

Valuations and Recommendation

K-Bridge historically has been traded between 0.73-3.20x PBR and is currently traded at 0.84x PBR. We are positive with the overall BLU industry outlook, but the extension of K-Bridge's payment days due to CPT's low profitability and other operation efficiency issues do worry us. In addition, since the TFT-LCD industry cycle is approaching its peak, we are conservative towards the company's outlook. Therefore, based on 9.5x PER of 2006E EPS of NT$1.5, we conclude a target price of NT$14.25, suggesting a 9.24% downside potential, and recommend to HOLD.

Figure 6: Consolidated Statement of Operations (NT$ mn)

Year to December	2002	2003	2004	2005E
Revenue	1,843	4,220	6,811	7,324
Cost of Goods Sold	1,641	3,633	5,915	6,788
Gross Profit	202	587	896	536
Operating Exp.	290	304	308	350
Operating Income	(93)	288	587	186
Non-op. Income	27	57	51	75
Non-op. Exp.	153	239	243	268
Pretax Income	(219)	106	395	(8)
Net Income	(248)	139	348	(22)
Adjusted EPS (NT$)	(4.42)	2.06	2.77	(0.18)

Source: MasterLink Securities

Figure 7: Income Statement (%)

Year to December	2002	2003	2004	2005E
Gross Profit	10.94	13.90	13.15	7.32
Operating Exp.	15.74	7.19	4.52	4.78
Operating Income	(5.06)	6.82	8.61	2.54
EBIT	(11.90)	2.52	5.79	(0.10)

Source: MasterLink Securities

Figure 8: Income Statement (% Growth)

Year to December	2002	2003	2004	2005E
Revenue	68.36	128.96	61.40	7.53
Pretax Income	(476.63)	(148.41)	271.61	(101.94)
Net Income	(479.75)	(155.88)	150.99	(106.43)

Source: MasterLink Securities

Figure 9: Consolidated Statement of Operations (NT$ mn)

Quarter	1Q05	2Q05	3Q05E	4Q05E
Revenue	1,456	1,623	1,975	2,270
Cost of Goods Sold	1,387	1,507	1,817	2,077
Gross Profit	69	116	158	193
Operating Exp.	86	81	87	96
Operating Income	(17)	35	71	97
Non-op. Income	15	29	5	25
Non-op. Exp.	116	107	22	22
Pretax Income	-118	-43	53	100
Net Income	-110	-50	48	90
Adjusted EPS (NT$)	-0.88	-0.40	0.38	0.71

Source: MasterLink Securities

MasterLink Securities – Stock Rating System
BUY: Total return expected to appreciate 10% or more over a 3-month period.
HOLD: Total return expected to be between 10% to –10% over a 3-month period.
SELL: Total return expected to depreciate 10% or more over a 3-month period.